COMPANY RESEARCH AND ANALYSIS REPORT

SFP Holdings Co., Ltd.

3198

Tokyo Stock Exchange Second Section

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Index

Summary

FY2/18 profits climbed steadily on a slight rise in sales Achieved major results in activating existing restaurants and new format ramp-up

1. Company profile

SFP Holdings Co., Ltd. <3198> (hereinafter, also "the Company") mainly operates seafood izakaya ISOMARU SUISAN, a popular restaurant format open 24 hours a day located adjacent to train stations and in urban commercial districts (street level). It has achieved robust profitability and growth thanks to a unique income model that takes maximum advantage of customer draw from prime locations. The Company had 218 restaurants (besides 7 franchise restaurants) as of the end of February 2018. By format, ISOMARU SUISAN is the largest with 141 locations, and by area, 199 restaurants are concentrated with in the Tokyo metropolitan area (including 127 restaurants in Tokyo). Recently, Toriyoshi Shoten (chicken specialty izakaya), a second major format that utilizes the same income model as ISOMARU SUISAN, gained momentum and Ichigoro (gyoza izakaya), a new format, ramped up smoothly. The Company purchased some of its shares owned by parent, create restaurants holdings inc. through a tender offer in March 2018. The transaction lowered the stake controlled by create restaurants holdings from about 67% to roughly 64%. We believe this was a step toward a future switch in the listing to the First Section of the Tokyo Stock Exchange.

2. FY2/18 results

The Company realized steady profit increases on slightly higher sales in FY2/18 with net sales at ¥36,841mn (+2.5%) and operating income at ¥3,529mn (+6.7%). Sales improved on contributions for the full year from restaurants opened in FY2/17 (40 locations) and new openings (18 locations). Existing locations also exhibited resilience at a 2.7% YoY decline in sales (+0.2pp vs. forecast) thanks to success with renovations and tablet deployment. We think the sales growth rate was relatively modest versus previous years due to intentional throttling of new openings and closures of suburban locations with weak results, as expected. Profits, meanwhile, increased more than planned because of improvement in operating margin to 9.6% (vs. 9.2% in the previous year) on the larger presence of Toriyoshi Shoten, which has a low production cost margin, decline in opening expenses accompanying curtailment of new sites, and promotion of hiring efficiency. While earnings have arrived at a plateau, we believe the Company still delivered robust results in terms of its priority measures of activating existing restaurants and developing new formats.

3. FY2/19 outlook

The Company expects higher sales and operating income in FY2/19 with a 7.5% YoY rise in net sales to ¥39,600mn and a 0.6% gain in operating income to ¥3,550mn. The outlook factors in boosts from full-year contributions by restaurants opened in FY2/18, new openings (20 locations), and format conversions (29 locations), which will become FY2/19's centerpiece. Nevertheless, it projects weaker income than in the medium-term management plan (¥41,000mn in FY2/19 net sales) due to reduction of the openings target from 40 to 20. While the Company intends to reduce new openings, just as in FY2/18, redirection of investment resources to format conversions should support a certain amount of income growth. We think the Company also aims to promote development of new formats and other future-oriented measures. From an earnings aspect, the Company expects a rise in operating income thanks to the effect of stronger sales. Operating margin, however, is headed for a modest decline because of higher expenses related to large-scale conversions and other activities.

4. Medium-term management plan

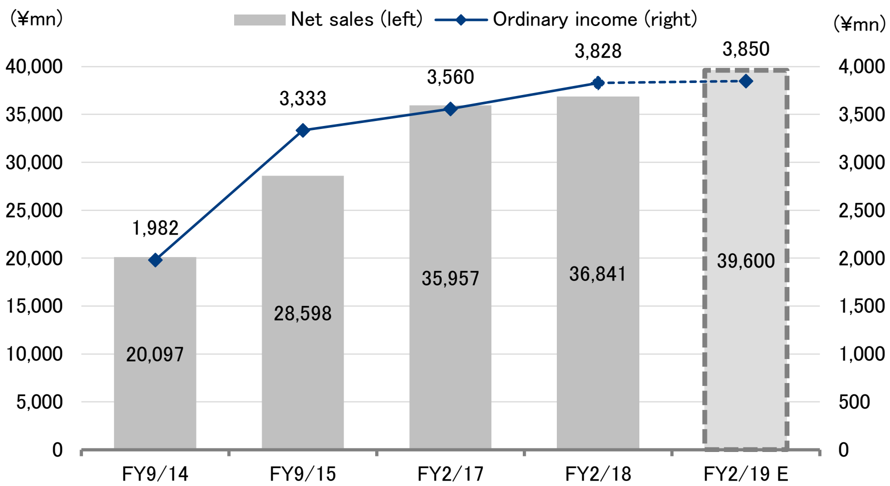
The Company released a new three-year medium-term management plan in light of its revisions to the FY2/19 restaurant opening plan. It intends to focus on building a base that can underpin future growth in FY2/19 and return to an opening pace of 40 locations a year from FY2/20. Goals in FY2/21, the final fiscal year under the plan, are ¥50,000mn in net sales (this works out 12.4% annual sales growth over three years), ¥4,500mn in ordinary income, and ¥2,650mn in profit attributable to owners of parent.

While the Company's opening pace will be slower in a second straight year, we expect the initiative to maximize strength from existing locations through a two-pronged strategy from FY2/18 of renovations and conversions to provide important experience for the longer-term growth approach of "deploying multiple contents at prime locations" (details given below). This will be in addition to a healthy ramp-up in second (Toriyoshi Shoten) and third (Ichigoro) growth drivers based on the ISOMARU SUISAN model. We also believe the Company should be capable of attaining medium-term plan goals with growth from FY2/20 as well, due to 1) having sufficient leeway for new openings through rollout in the Kansai area and multiple formats in one district and 2) receiving support from flexible conversions that fully leverage the strengths of existing locations. We will be focusing on ramp-up of other new formats based on the ISOMARU SUISAN model, development of new income models and related progress, and initiatives to realize nationwide deployments, including franchises and M&A.

Key Points

- Realized steady profit gains on slightly higher sales in FY2/18
- Achieved major results, despite intentional throttling of new openings, on activation of existing locations and new format ramp-up
- Plans to modestly reduce new openings in FY2/19 too, but put emphasis on utilization of existing locations through conversions
- Aiming for accelerated and sustainable growth via an approach of "deploying multiple contents in prime locations"

Results trends



Note: FY2/16 not shown because it was an irregular period of just five months
Source: Prepared by FISCO from the Company's financial results

Company profile

Primarily operates popular ISOMARU SUISAN and Toriyoshi Shoten
Successful ramp-up of the new Ichigoro format

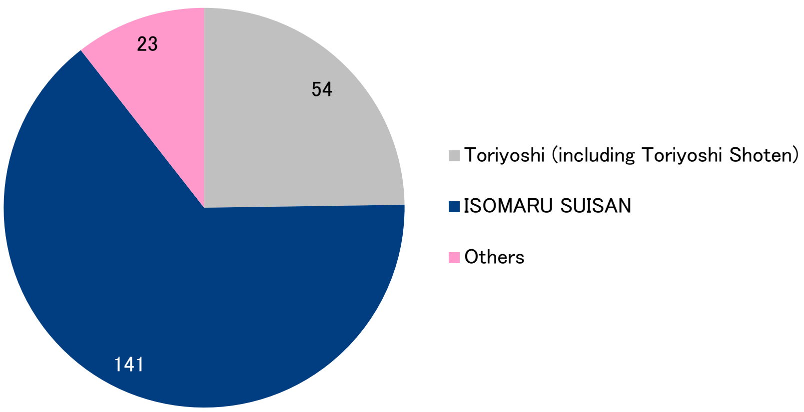
1. Business description

The Company primarily operates seafood izakaya ISOMARU SUISAN, a popular restaurant open 24 hours a day at locations adjacent to train stations and in commercial districts (street level). The Company had 218 restaurants (besides 7 franchise restaurants) as of the end of February 2018. ISOMARU SUISAN is the largest format with 141 locations, and 199 restaurants are concentrated in the Tokyo metropolitan area (including 127 in Tokyo). The Company aimed to establish brand presence and expand the number of restaurants with focused openings in the Tokyo metropolitan area (particularly in central Tokyo and entertainment districts).

Recently, Toriyoshi Shoten (chicken specialty izakaya), has gained momentum using the same income model as ISOMARU SUISAN, as a second brand and is putting efforts into development of new formats too. It concluded a capital alliance with create restaurants holdings inc. <3387> in April 2013 to become a consolidated subsidiary and listed shares on the Second Section of the Tokyo Stock Exchange in December 2014.

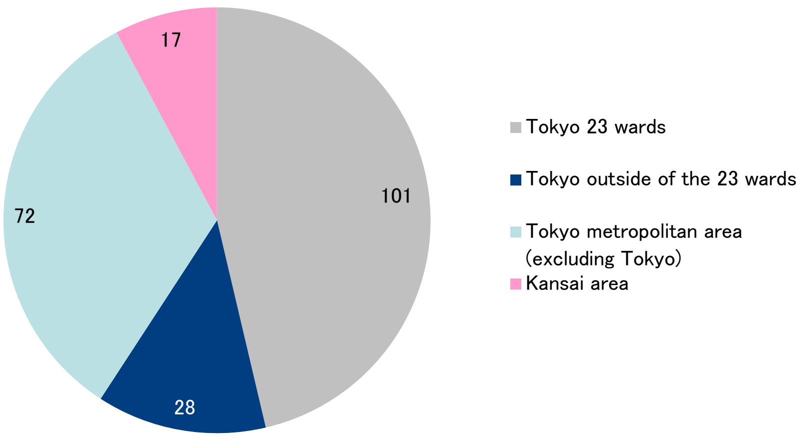
While the Company only has the food and beverages segment, it operates in three areas – the founding Toriyoshi business (including Toriyoshi Shoten), the mainstay ISOMARU SUISAN business, and other business including new formats. The ISOMARU SUISAN business generates approximately 70% of net sales (FY2/18 result).

No. of restaurants by format (Excludes franchise restaurants)



Source: Prepared by FISCO from Company materials

No. of restaurants by area (Excludes franchise restaurants)



Source: Prepared by FISCO from Company materials

Features by brand

Brand	Features
ISOMARU SUISAN	Seafood izakaya mainly for seafood BBQs
Toriyoshi	Chicken specialty restaurant that serves fried chicken wings with a special sauce
Toriyoshi Shoten	Tasty, quick food provision of food typical of a chicken izakaya
Omotenashi Toriyoshi	New Toriyoshi with refined hospitality
Ichigoro (Toragoro)	Gyoza izakaya that serves four genres and 13 types of gyoza
Kizuna Sushi	24-hour restaurant that serves fresh, delicious, and inexpensive sushi
CASA DEL GUAPO	Authentic recreation of a Spanish bar style
Teppan 200°c	Casual teppanyaki at a large counter
Misonikomi Udon Tamacho Honten	Nagoya's famous misonikomi udon (udon in a thick miso soup)
Bistro ISOMARU	Casual Western-style izakaya
Kisoba Tamagawa	Reasonably priced fresh ground, prepared, and boiled soba noodles
Home Base/Home Base 2	Japanese-style pub with a retro atmosphere reminiscent of the Showa era (1925-1989); Home Base 2 is the Company's first standing bar (Tachinomi) format
Go-no-Go	Japanese-style pub that invigorates office workers for the next day

Source: Prepared by FISCO from Company materials

Income model of 24-hour operation at locations adjacent to train stations and in commercial districts (street level) is a key strength

2. Corporate characteristics

The Company's advantage lies in its unique income model, in addition to the conventional izakaya income model. Mainstay ISOMARU SUISAN's income model selects locations adjacent to train stations and in commercial districts with high rents for its street-level locations. It sustains high turnover by maximizing customer draw at these prime sites with unique and highly visible facades, welcoming and open atmospheres, and 24-hour operations that cover a wide range of demand. It realizes leverage by securing large sales that sufficiently cover expensive rents that would erode profitability at typical izakaya restaurants. This format cannot be easily copied because it relies on a location analysis scheme, street-level restaurant development skills, know-how in 24-hour operations and rotating optimal menus for specific hours. We think expensive opening costs and the difficulties of 24-hour operations present major hurdles to other companies. The Company's accumulation of know-how ahead of others and build-up of robust brand presence through focused openings in metro Tokyo have driven a beneficial cycle of lowering opening risk. The Company still has considerable room to open restaurants at prime locations in the Tokyo metropolitan area and is moving forward with rollouts in the Kansai area. We think it enjoys unique positioning to achieve high profitability and growth.

The Company can also apply the income model established for ISOMARU SUISAN (hereinafter, "the ISOMARU SUISAN model") to other formats and has substantial room for further advances. Toriyoshi Shoten, which has potential to become a second major brand, applied the ISOMARU SUISAN model to the Company's founding Toriyoshi business and has been steadily gaining momentum. Key points are openings along with ISOMARU SUISAN (at the same time or in the same area as existing ISOMARU SUISAN) and selective openings that meet market features (location and format). The Company has opened Toriyoshi Shoten adjacent to ISOMARU SUISAN, proof that demand is not cannibalized. Additionally, the Company is successfully improving results in conversions of ISOMARU SUISAN suburban locations that have exhausted vibrancy from their openings. Therefore we expect income contributions from effective utilization of existing location strengths. The Company is currently ramping up the new Ichigoro format as its third main restaurant type. We think it possesses potential via expansion of the network by developing a variety of new formats using the ISOMARU SUISAN model and should also improve the probability of sustaining and lifting income after openings.

Founded with the Toriyoshi restaurant that specializes in Nagoya-style fried chicken wings

3. History

The Company started with the opening of Toriyoshi, a fried chicken wing specialty restaurant, in Tokyo's Musashino City (now Toriyoshi Shoten's Kichijoji South Exit restaurant) in April 1984 by founder Ryosaku Samukawa (former Representative Director & Chairman, retired in December 2015). Toriyoshi served Nagoya-style fried chicken wings arranged with a special recipe as its main menu and steadily increased the number of locations. It presented a vision of "becoming a comprehensive food service business that creates a rich menu of foods" in 2001 and expanded operations to 50 locations, including format diversification, in 2008.

Following the economic crisis triggered by the Lehman Brothers bankruptcy and changes in the industry environment, the Company revised its vision of "becoming a specialty restaurant group that enriches Japan." With the switch in course to pursuit of "specialty restaurants," it opened ISOMARU SUISAN based on a unique income model in 2009 and built the foundation for growth.

Having smoothly ramped up ISOMARU SUISAN and confirmed a growth path, the Company decided to pursue listing its stock as the quickest path to "building a lasting corporate organization." It accepted capital participation by Polaris No.2 Investment Limited Partnership (Polaris Capital Group Co., Ltd.), a private-equity fund, in December 2010 as well as enhanced management and organizational operating precision by adopting objective standards and rational methods. San Francisco Holdings Co., Ltd., which was established as an SPC (special purpose company), served as the nominal surviving company and absorbed Samukawa Food Planning Co., Ltd., which had been the main entity prior to then, in May 2011 (the Company was renamed SFP Dining Co., Ltd. in October 2011). The Company transitioned to a holding company framework in September 2016 and renamed itself as SFP Holdings in June 2017.

The Company concluded a capital alliance with create restaurants holdings, which mainly operates restaurants and food courts in suburban shopping centers, in April 2013 and listed on the Second Section of the Tokyo Stock Exchange as a consolidated subsidiary in December 2014.

The Company accelerated the pace of openings for ISOMARU SUISAN, which had solidified a brand presence as a popular format, after listing on the market and reached 100 locations for ISOMARU SUISAN in May 2015. It also started franchising ISOMARU SUISAN in Nagoya City, Aichi Prefecture*1. It began opening Toriyoshi Shoten restaurants, which are the second major growth driver, and ramped up this business*2. The Company transitioned to a holding company format to be capable of quickly responding to changes in the business environment in September 2016.

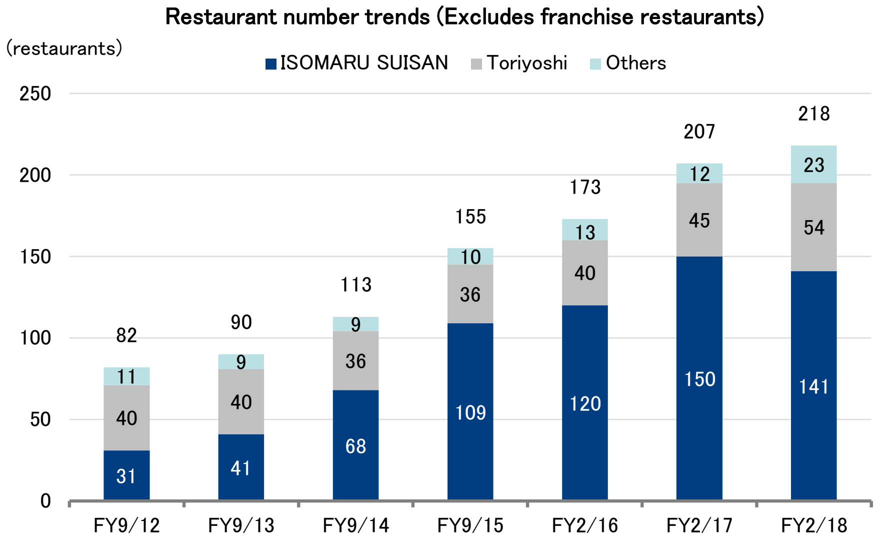
*1 Started ISOMARU SUISAN franchise operations in Kyushu (Hakata, Fukuoka Prefecture) in June 2017
*2 Operated 29 Toriyoshi Shoten restaurants at the end of February 2018

Business results

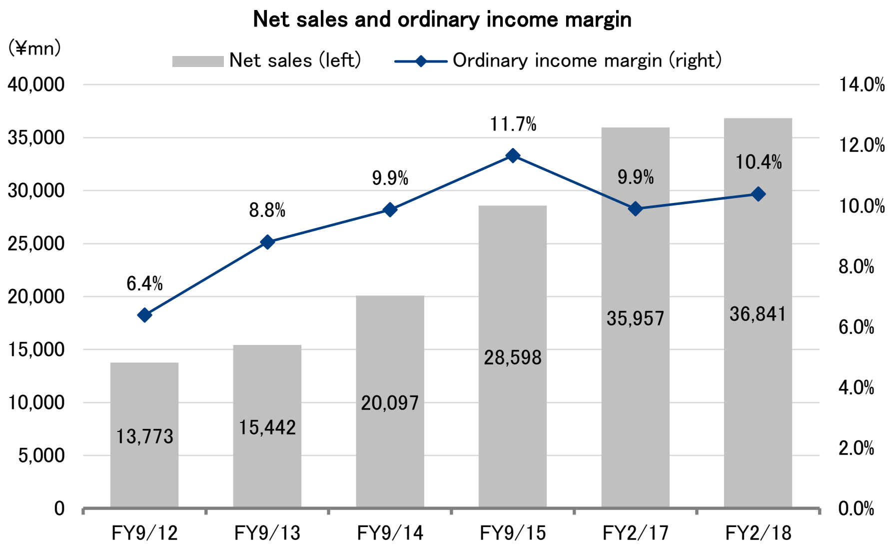
Sustaining strong growth potential and profit margin by aggressively increasing restaurant numbers

1. Past performance

Increases in the number of restaurants have driven the Company's growth in past years. Income growth accelerated from FY9/10 when the Company ramped up openings of ISOMARU SUISAN based on a unique income model, and ordinary profit margin improved significantly with the rise in sales. Margin moved above the 8% goal in FY9/13 and subsequently increased to 11.7% in FY9/15. It has remained at a strong level near 10% since then.

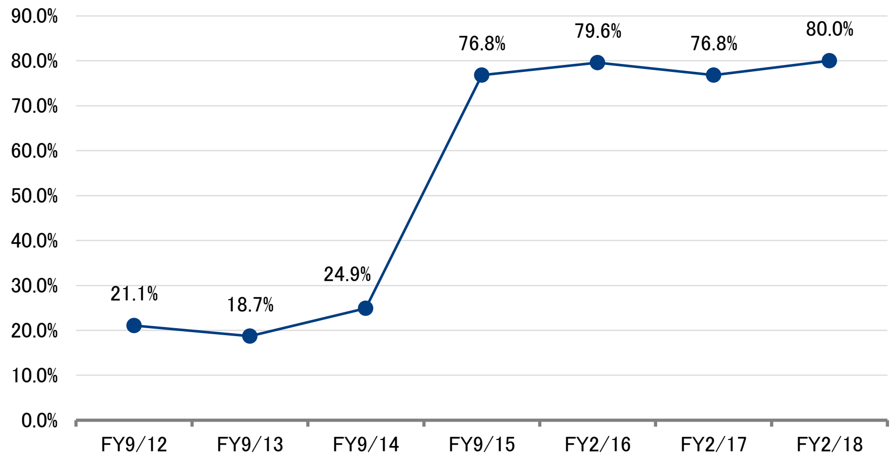


Source: Prepared by FISCO from Company materials



Note: FY2/16 not shown because it was an irregular period of just five months
Source: Prepared by FISCO from Company materials

Equity ratio



Source: Prepared by FISCO from Company materials

In financial standing, the equity ratio had been about 20% for many years, but strengthened to 76.8% at the end of FY9/15 owing to the public-offering capital increase for the TSE Second Section listing in December 2014 (about ¥12,758mn). It has stayed above 70% thereafter.

ROE, which indicates capital efficiency, climbed along with improvement in ordinary income margin, and has also been sustaining a high level since FY9/15 after the reinforcement of capital. We think the Company possesses excellent financial standing.

FY2/18 profits climbed steadily (exceeding forecast) on a slight rise in sales Existing restaurant reinforcement and spending reduction measures lifted income

2. Overview of FY2/18 results

The Company realized steady profit increases on slightly higher sales in FY2/18 with net sales at ¥36,841mn (+2.5% YoY), operating income at ¥3,529mn (+6.7%), ordinary income at ¥3,828mn (+7.5%), and profit attributable to owners of parent at ¥2,934mn (+41.0%). While sales slightly missed the initial outlook, profits were substantially higher.

Overall sales benefited from full-year contributions by 40 restaurants opened in the previous fiscal year and 18 new restaurants opened during the year* as well as a positive effect from conversions (9 restaurants). The Company also exhibited resilience in same-store sales at a decline of 2.7% (+0.2pp vs. forecast) on successes with renovations (30 restaurants) and a rise in average spending from tablet deployment. We think the sales growth rate was relatively modest versus previous years due to intentional throttling of new openings and closures of suburban restaurants with weak results (it closed 7 restaurants), as expected. Policy actions are evident in curtailment of ISOMARU SUISAN openings to just two locations amid emphasis on reinforcement of existing locations as well as exits (7 locations) and conversions (7 locations). Sales were slightly below target because of fewer openings than planned (two less than in forecast) and weather impact. Nevertheless, we believe results were generally on track with the plan.

* Excludes the two franchise restaurants opened in the Kyushu area (Hakata, Fukuoka Prefecture)

In earnings, meanwhile, gross margin improved to 71.5% (vs. 71.4% a year earlier) because of a rise in the sales share of Toriyoshi Shoten, which has a relatively low production cost margin, and the SG&A expenses ratio dropped to 61.9% (vs. 62.2%) on lower opening expenses related to throttling new openings and promotion of hiring efficiency* (this effort provided ¥292mn in savings). Operating margin hence climbed to 9.6% (vs. 9.2%) and operating income rose by more than planned. The large increase in net profit stemmed from booking consumption tax exemption profit (¥972mn) in extraordinary profit. This should be viewed as a one-time special factor.

* Conducted by the parent company's cross-functional team for the group

From the financial viewpoint, total assets decreased slightly (0.3% YoY) to ¥26,156mn due to depreciation of goodwill (¥273mn) and other factors. Shareholders' equity, meanwhile, rose 3.7% to ¥20,928mn mainly on retained profit build-up and this lifted the equity ratio to 80.0% (vs. 76.8%).

Overview of FY2/18 results

(¥mn)

	FY2/17 consolidated results		FY2/18 consolidated results		Change		FY2/18 consolidated forecast		Achieve-ment rate
		% of total		% of total		Change rate		% of total	
Net sales	35,957		36,841		884	2.5%	37,000		99.6%
Toriyoshi	7,514	20.9%	8,443	22.9%	929	12.3%	-	-	-
ISOMARU SUISAN	26,031	72.4%	25,464	69.1%	-567	-2.2%	-	-	-
Others	2,410	6.7%	2,933	7.9%	522	21.7%	-	-	-
Cost of sales	10,270	28.6%	10,502	28.5%	233	2.3%	-	-	-
Gross profit	25,687	71.4%	26,339	71.5%	652	2.5%	26,440	71.5%	99.6%
SG&A expenses	22,379	62.2%	22,810	61.9%	431	1.9%	23,090	62.4%	98.8%
Operating income	3,307	9.2%	3,529	9.6%	222	6.7%	3,350	9.1%	105.3%
Ordinary income	3,560	9.9%	3,828	10.4%	268	7.5%	3,700	10.0%	103.5%
Profit attributable to owners of parent	2,081	5.8%	2,934	7.9%	853	40.9%	2,450	6.6%	119.8%
Total assets	26,257		26,156		-101	-0.3%			
Net assets	20,174		20,928		754	3.7%			
Equity ratio	76.8%		80.0%		3.2%				

Source: Prepared by FISCO from the Company's financial results

Results are reviewed by main business field below.

Sales in the Toriyoshi business rose substantially (12.3% YoY) to ¥8,443mn with full-year contributions from seven restaurants opened in the previous fiscal year and additions from nine restaurants opened in FY2/18 for vibrant Toriyoshi Shoten. Same-store sales were firm as well at a decline of just 3.2% (+0.3pp vs. forecast). This business had 54 restaurants at the end of FY2/18, an increase of nine restaurants.

Sales in the ISOMARU business fell 2.2% YoY to ¥25,464mn. However, this outcome was not surprising because it reflects the impact of efforts to activate existing ISOMARU SUISAN restaurants, including reduction of openings to two and action on weak suburban restaurants (five exits and six conversions). Same-store sales were steady at a 3.2% YoY decline with support from renovations (28 restaurants) and higher average customer spending related to tablet deployment. Total number of restaurants in this business declined by 9 YoY to 141. Franchise locations increased to seven (up two restaurants) with the openings in Kyushu (Hakata, Fukuoka Prefecture)*.

* Franchise restaurants consist of five in Aichi Prefecture (Nagoya) and two in Fukuoka Prefecture (Hakata).

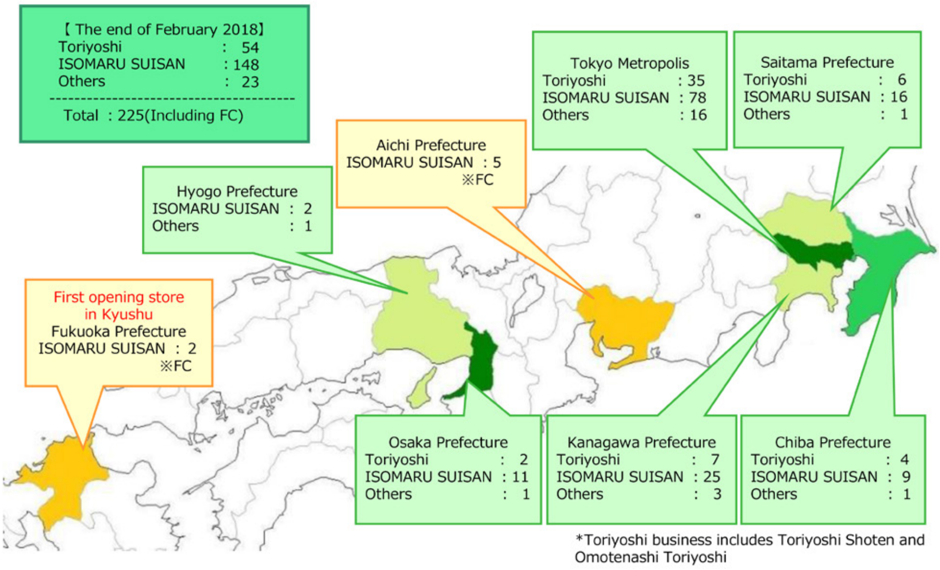
Other sales grew substantially, albeit at a smaller scale, with a 21.7% YoY gain to ¥2,933mn. The Company opened nine Ichigoro/Toragoro (gyoza izakaya) restaurants, a new format, steadily ramping up this business. Same-store sales rose 4.5% YoY.

Openings and closures in FY2/18

	Business			Total	Region			
	Toriyoshi	ISOMARU SUISAN	Others		Tokyo 23 wards	Tokyo outside the 23 wards	Tokyo metropolitan area (excluding Tokyo)	Kansai area, Chubu area, Kyushu
End of February 2017	45	150 (5)	12	207 (5)	100	27	66	14 (5)
Openings	+9	+2 (+2)	+7	+18 (+2)	+7	+1	+7	+3 (+2)
Format conversions	+1	0	+6	+7	+4	+1	+2	0
Closures (including format conversions)	-1	-13 [-8]	-2 [-1]	-16 [-9]	-10	-1	-3	0
End of February 2018	54	141 (7)	23	218 (7)	101	28	72	17 (7)
Full-year opening plan	+10	+10	0	+20	-	-	-	-

The [ ] value shows the number of closures from conversions included in the total amount.
The ( ) value is the number of franchise restaurants excluded from the total amount.
Source: Prepared by FISCO from Company materials

Number of restaurants by prefecture



Source: The Company's results briefing materials

Initiatives

Achieved major results in existing restaurant activation and new format ramp-up

The Company has been revising opening policy as well as activating existing restaurants and developing new formats in light of missed target in FY2/17 (particularly at suburban existing locations) and as part of efforts to realize sustainable growth. While this approach led to a plateau in growth (opening pace), we think the Company achieved major results with the following themes.

1. Renovations

Renovations at 30 existing restaurants (28 ISOMARU and 2 Toriyoshi) enabled these locations to maintain and improve income. Key aims were improving customer draw by renewing the exterior with a cleaner and more attractive look and creating a more comfortable space and lifting operational efficiency by replacing the flooring, switching to tables with storable burners, revamping layout, and renewing interior walls.

2. Raising average customer spending through tablet deployment

The Company also managed to increase average customer spending through deployment of tablets at restaurants. Tablets significantly reduce order-related efforts by changing the flow from the conventional pattern of “requesting staff,” “placing orders,” “inputting in terminals,” “repeating orders,” “cooking,” and “provision” to just “inputting in terminals,” “cooking,” and “provision.” These revisions also shortened the amount of time it takes until customers receive ordered items. The results are improvements in customer convenience and higher customer average spending (thanks to the easier ordering process and shorter waiting time). Tablets aid in catering to inbound demand too (with support for English, Korean, Cantonese, Chinese).

3. New format initiatives

The Company is developing new formats based on the ISOMARU SUISAN model to leverage the advantages of its unique income model at prime locations (shopping districts adjacent to train stations and street-level restaurants), as explained above. It opened Gyoza Seizo Hanbaiten Toragoro*, an izakaya that specializes in gyoza, on March 27, 2017 in Shinjuku, as the first initiative, and has reached 9 restaurants (including 4 conversions) with this format. Opening 9 restaurants in the first year is the Company’s fastest pace and indicates solid potential as a third main format. The restaurant serves a broad gyoza menu (13 types in 4 genres) to prevent customers from losing interest. While average customer spending (estimated at about ¥2,000) is less than at ISOMARU SUISAN, sales per restaurant are roughly the same because of faster turnover (raising customer numbers).

* It changed the name to Ichigoro from the second restaurant.

The Company is also developing new income models besides the conventional izakaya model and ISOMARU SUISAN model. In FY2/18, it opened Home Base and Home Base 2*1 and Go-no-Go*2 as Japanese-style pubs (total of four sites) on a trial basis. We will be closely monitoring these trends.

*1 This format incorporates contemporary features in an old-type Japanese-style pub style recreated with the Company’s knowhow.
*2 This is a Japanese-style pub format with special core products based on a retro pub style reminiscent of the Showa era (1925-1989).

4. Focused openings in prime areas of Tokyo and Osaka

The Company redirected its opening policy to emphasis on commercial districts again in light of risk from vulnerability to economic trend impact in suburban smaller-scale markets. ISOMARU SUISAN strategy had involved raising awareness with dominant openings in prime city-center areas followed by expansion to suburban areas. The Company is revising the stance of opening restaurants in suburban areas and instead will strengthen concentrated openings in prime locations in Tokyo and Osaka. This includes development of the Kansai area, which has room for opening new restaurants.

Outlook

Aiming for higher sales and profits while reducing the opening pace again in FY2/19 Plans to focus on building a foundation for accelerated growth from FY2/20

1. FY2/19 outlook

The Company expects higher sales and profits (operating and ordinary) in FY2/19 with net sales at ¥39,600mn (+7.5% YoY), operating income at ¥3,550mn (+0.6%), ordinary income at ¥3,850mn (+0.6%), and profit attributable to owners of parent at ¥2,350mn (-19.9%). While net income is likely to be lower, this is explained by the impact of the absence of a one-time special factor in the previous fiscal year (¥972mn in consumption tax exemption profit) and we think sales and profits should continue rising as a trend in real terms.

The outlook factors in boosts from full-year contributions by restaurants opened in FY2/18 (18 locations), new openings (20 locations), and FY2/19's centerpiece conversions (29 locations). Nevertheless, it projects weaker income than in the medium-term plan (¥41,000mn in FY2/19 net sales) due to reduction of the openings target from 40 to 20. While the Company intends to reduce new openings, just as in FY2/18, redirection of investment resources to conversions should support a certain amount of income growth. We think the Company also aims to promote development of new formats and other future-oriented measures.

In earnings, the Company expects a rise in operating income thanks to the effect of stronger sales. Operating margin, however, is headed for a modest decline to 9.0% (vs. FY2/18's 9.6%), despite improvement in gross margin from expanded Toriyoshi Shoten openings and cost reduction measures just as in FY2/18, due to pressure from higher expenses related to large-scale conversions and other activities. We think profits might be lower at the 1H stage because of accelerated implementation of store conversions and new openings.

2. Activity policy

The Company outlined the "multiple contents in prime locations" approach as a new growth strategy in light of results from activities in the previous fiscal year. To fully leverage the strength of "street-level restaurants in prime locations adjacent to train stations," a unique income model, it wants to address a broad range of customers and realize sustainable growth by implementing a variety of contents in the ISOMARU SUISAN model (changing products and provision methods). The Company views FY2/19 as the timing to lay the foundation of future growth and intends to apply the approach from FY2/18 with goals of 1) maintaining and increasing same-store income, 2) solidifying new formats, and 3) expanding growth potential.

Maintaining and increasing same-store income

The Company established the marketing headquarters to strengthen brands from a strategic perspective and conduct brand management. Additionally, it intends to pursue brand formation, including conversions from ISOMARU SUISAN locations as a core policy, in order to solidify the Toriyoshi Shoten brand. The plan calls for renovation of 10 locations as well.

Solidifying new formats

Besides continued promotion of Ichigoro, which has ramped up smoothly as a third format, the Company plans to refine Japanese-style pubs opened on a trial basis in FY2/18. It also intends to launch other new formats.

Expanding growth potential

The Company aims to lay the groundwork for future growth through ongoing openings of new restaurants, mainly in the Tokyo metropolitan area and Kansai areas, and the above-mentioned establishment of new formats and preparations to enter regional cities. In particular, we think it is likely to actively review M&A and franchise opportunities, not only opening self-run restaurants, in entering regional cities.

Medium-term management plan

Seeking accelerated and sustainable growth through the "multiple contents in prime locations" approach

The Company is currently implementing a three-year medium-term management plan. As mentioned earlier, it released a new three-year plan due to revision of opening assumptions in FY2/19. However, it intends to return to an opening pace of about 40 restaurants a year from FY2/20. Final-year (FY2/21) goals are ¥50,000mn in net sales, ¥4,500mn in ordinary income, and ¥2,650mn in profit attributable to owners of parent.

Management is putting emphasis on the above-mentioned "multiple contents in prime locations" approach to drive growth over the medium term. This involves application of the unique ISOMARU SUISAN model to Toriyoshi Shoten, Ichigoro, and other new formats. The Company hopes to realize accelerated and sustainable growth by altering the format to broaden expansion potential and flexibly converting format to take the fullest advantage of existing location strength.

Medium-term management plan

(¥mn)

	FY2/18		FY2/19 plan		FY2/20 plan		FY2/21 plan
	Previous plan	Results	Previous plan	New plan	Previous plan	New plan	New plan
Net sales	37,000	36,841	41,000	39,600	47,000	43,000	50,000
(Growth rate)	2.9%	2.5%	10.8%	7.5%	14.6%	8.6%	16.3%
Ordinary income	3,700	3,828	3,800	3,850	4,700	3,850	4,500
(Margin)	10.0%	10.4%	9.3%	9.7%	10.0%	9.0%	9.0%
Profit attributable to owners of parent	2,450	2,934	2,200	2,350	2,850	2,350	2,650
(Margin)	6.6%	5.7%	5.4%	5.9%	6.1%	5.5%	5.3%
Number of new openings	20	18	40	20	40	40	40
Number of restaurants at the end of the period	227	218	265	238	267	278	318

Source: Prepared by FISCO from Company materials

While the Company's opening pace will be slower in a second straight year, we expect the initiative to maximize strength from existing restaurants (locations) through a two-pronged strategy from FY2/18 of renovations and conversions to provide important experience for the longer-term growth approach of "deploying multiple contents at prime locations," in addition to healthy ramp-up in second (Toriyoshi Shoten) and third (Ichigoro) growth drivers based on the ISOMARU SUISAN model. We also believe the Company should be capable of attaining medium-term plan goals with growth from FY2/20 as well, due to 1) having sufficient leeway for new openings through rollout in the Kansai area and multiple formats in one district and 2) receiving support from flexible conversions that fully leveraging the strengths of existing locations. We will be focusing on ramp-up of other new formats based on the ISOMARU SUISAN model, development of new income models and related progress, and initiatives to realize nationwide deployments, including franchises and M&A.

Shareholder return policy

Aiming for 30% dividend payout ratio
Conducted share buyback and tender offer

The Company aims for a stable dividend with 30% payout ratio as the target. It plans to pay a ¥26 annual dividend (¥13 interim, ¥13 year-end) for FY2/18, in line with initial forecast. It is also targeting ¥26 in FY2/19.

The Company has also adopted a shareholder gift program. It allocates food coupons that can be used as the Company's restaurants twice a year (covering shareholders with 100 or more shares listed in the shareholder registry at the end of February and the end of August). The gift amount varies depending on the number of shares owned.

Shareholder gift program

Number of shares owned	Shareholder gift coupon (each distribution)
100-499 shares	¥4,000
500-999 shares	¥10,000
1,000 or more shares	¥20,000

Source: Prepared by FISCO from Company materials

The Company conducted a share buyback (600,030 shares) and retirement of treasury stock aimed at enhancing shareholder return and raising capital efficiency in FY2/18 and conducted a tender offer for its own shares (3,767,581 shares) and retirement in March 2018. The tender offer almost entirely consisted of shares sold by parent create restaurants holdings. The transaction lowered the stake controlled by create restaurants holdings from about 67% to roughly 64%. We believe this was a step toward a future switch in the listing to the TSE First Section.

Disclaimer